Supreme Court, U.S.
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No.

In the Supreme Court of the United States

October Term 1994

SUBAFILMS, LTD. and
THE HEARST CORPORATION,

Petitioners,

vs.

UNITED ARTISTS CORPORATION, MGM-PATHE COMMUNICATIONS CO. (FORMERLY KNOWN AS MGM/UA COMMUNICATIONS CO.), MGM/UA HOME VIDEO, INC., WARNER BROS., INC., and WARNER HOME VIDEO, INC.

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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Questions Presented for Review

(1) Did the Court below err in holding that the United States Copyright Act can have no extraterritorial effect, even where the defendant is a U.S. citizen, there is no conflict with foreign law, and there is a substantial impact on U.S. commerce? The Petition should be granted to reconcile the seemingly conflicting opinions of this Court concerning the extraterritoriality of U.S. statutes, to determine whether Article I, Section 8, clause 8 of the United States Constitution mandates that the Copyright Act be applied extraterritorially where consistent with choice of law principles, and to determine whether and under what circumstances the United States Copyright Act may have extraterritorial application.

(2) Did the Court below err in holding that a defendant's domestic authorization of foreign copying is not actionable under the United States Copyright Act, despite 17 U.S.C. §106 which gives the copyright owner the exclusive right "to authorize" the making of copies? In so holding, the Court below overruled *Peter Starr Production Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440 (9th Cir. 1986). The Petition should be granted to determine the nature and extent of a copyright owner's exclusive right "to authorize" the acts enumerated in 17 U.S.C. §106.

(3) Did the Court below err in vacating the District Court's entire award of attorneys' fees to petitioners as the prevailing plaintiffs in their copyright infringement claim, despite the fact that the District Court's finding of domestic infringement was undisturbed on appeal? The Petition should be granted in order to clarify this Court's ruling in *Fogerty v. Fantasy, Inc.*, 510 U.S. ____, 127 L.Ed.2d 455, 114 S.Ct. 1023 (1994).

List of Parties

The parties to the proceeding below were plaintiffs (petitioners herein) Subafilms, Ltd. and The Hearst Corporation. Also appearing below as a cross-defendant was Apple Corps, Ltd. None of these parties have parent corporations or nonwholly owned subsidiaries.

Appearing below as defendants (respondents herein) were United Artists Corporation, MGM-Pathe Communications Co. (formerly known as MGM/UA Communications Co.), MGM/UA Home Video, Inc., Warner Bros, Inc., and Warner Home Video, Inc.

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I.

OPINIONS BELOW.

The trial of this action was conducted before a Special Master appointed pursuant to *Federal Rule of Civil Procedure* 53. The Special Master's findings and rulings are unreported, but copies are attached as Document Nos. 1 and 2 to the accompanying Appendix. (Due to its length, the

Appendix is being filed under separate cover.) Except for prejudgment interest, the Special Master's findings were adopted by the United States District Court for the Central District of California, the Honorable John G. Davies presiding. The District Court entered judgment for plaintiffs. The District Court's Order Adopting the Report of the Special Master and its Judgment are attached as Document Nos. 3 and 4 to the Appendix.

Defendants in the District Court action (respondents here) appealed to the United States Court of Appeals for the Ninth Circuit. The Court of Appeals affirmed the District Court judgment in an unreported opinion, a copy of which is attached as Document No. 5 to the Appendix. Defendants sought a rehearing by the United States Court of Appeals for the Ninth Circuit sitting *en banc*. The request for a rehearing *en banc* was granted and the Court of Appeals, sitting *en banc*, rendered its decision, which is reported at 24 F.3d 1088 (9th Cir. 1994). This decision vacated in part the cause below and remanded the matter. Attached as Document No. 6 to the Appendix is the decision of the *en banc* Court.

This Petition is directed to the *en banc* decision of the Court of Appeals.

II.

JURISDICTION.

The decision of the Court of Appeals, sitting *en banc*, was made and ordered on May 13, 1994. On May 26, 1994, plaintiffs (petitioners herein) sought a rehearing of that decision. Petitioners' application for a rehearing was denied on June 27, 1994. A copy of the *en banc* order, denying rehearing, is attached as Document No. 7 to the

Appendix. The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

III.

CONSTITUTIONAL PROVISIONS, STATUTES, AND TREATIES INVOLVED.

A. Article I, Section 8, clause 8, of the U.S. Constitution:

> "The Congress shall have Power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

B. 17 U.S.C. §106:

> "Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending;
>
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and

> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly."

IV.

STATEMENT OF THE CASE.

This is a case of copyright infringement involving the motion picture "Yellow Submarine." Jurisdiction of the District Court was invoked based on 28 U.S.C. §1338, as well as the doctrine of pendant jurisdiction.

A. The Underlying Facts.

In 1966, petitioners sought to make an animated motion picture called "Yellow Submarine," featuring cartoon likenesses of the musical group "The Beatles" (the "Picture"). Petitioner, Subafilms, Ltd. ("Subafilms"), was owned by members of "The Beatles". Petitioner, The Hearst Corporation ("Hearst"), was actively involved in the business of cartoon entertainment. In 1966 and 1967, Hearst, acting on behalf of both petitioners, negotiated with United Artists Corporation ("UA") for UA to finance and distribute the Picture. In 1967, the parties entered into written contracts under which UA obtained theatrical and television distribution rights to the Picture for a term of ten years. The parties specifically agreed that non-theatrical distribution rights would not be granted to UA.

The Picture was produced and, in 1968, UA began theatrical distribution. The United States copyright in the Picture belonged to petitioners and was registered in petitioners' names.

UA repeatedly acknowledged, internally and to others, that what it received under the agreements were only theatrical and television rights. Moreover, prior to 1978, UA took pains to insure that its agreements licensing others the right to exhibit or broadcast the Picture did not go beyond the date in 1978, on which UA's ten year distribution term would end. As that ten year term was coming to an end, UA sought to negotiate with Hearst for an extension of UA's distribution rights. Such an extension was not granted.

By the early 1980s, home video distribution of films was becoming a significant market. Home video is the sale or lease of videotaped copies of a motion picture primarily for home use. At this time, UA entered into agreements with video companies licensing its catalogue of films for home video distribution. The licensees wanted, expected, and, if available, had the right to receive home video rights in the Picture as part of these agreements. But UA carefully avoided including the Picture in these licenses, explaining that the Picture could not be licensed by UA for home video distribution.

In 1987, however, the home video market for the Picture became too lucrative to resist. UA's successor-in-interest, MGM/UA Communications Co. ("MGM/UA") announced that it was going to distribute the Picture in home video in the United States. At or about the same time, it authorized Warner Home Video ("Warner") to distribute the Picture in home video outside of the United States.

Because the ten year distribution term was over and because UA never had the right to home video distribution in the first place, petitioners promptly gave MGM/UA and Warner written notice that they did not have the right to engage in such distribution. Despite this explicit notice, MGM/UA and Warner went forward with their home video

distribution. MGM/UA distributed the Picture in the United States through its subsidiary MGM/UA Home Video. Warner distributed the Picture in foreign territories.

MGM/UA's and Warner's home video distribution of the Picture continued from 1987 through the trial of this action. That distribution essentially destroyed petitioners' ability to market the Picture in the home video field anywhere in the world.

B. Trial Proceedings.

In 1988, petitioners brought suit against MGM/UA, Warner, and their affiliated companies (collectively "the Studios") in the United States District Court for the Central District of California, alleging that the Studios' home video distribution of the Picture infringed petitioners' copyright and violated the parties' contracts. In January 1990, the parties stipulated that the trial of the matter would be conducted by a Special Master referred by the District Court.

After a trial in August 1990, the Special Master ruled in petitioners' favor on both the copyright and contract issues. The Special Master found that UA's unilateral distribution rights were to last only for a term of 10 years (until 1978) and that, in any event, the distribution rights granted to UA never included home video rights.

The Special Master held that the Studios' home video distribution of the Picture was both an infringement of petitioners' copyright and a breach of contract. He found that petitioners were damaged in the sum of $2,228,000 by the Studios' infringement and breach, which was allocable one-half to domestic distribution and one-half to foreign distribution. The Special Master rejected the Studios' contention that their foreign distribution could not constitute

copyright infringement because there can be no extraterritorial application of the Copyright Act. The Special Master cited *Peter Starr Production Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440 (9th Cir. 1986), which held that, under Section 106 of the 1976 Copyright Act, authorization in the United States of copying or exhibition outside the United States was itself an act of infringement. Accordingly, the imposition of liability for the Studios' overseas distribution was not an extraterritorial application of the Copyright Act. The Special Master awarded petitioners their damages plus an award of attorneys' fees and costs in the sum of $536,925.48, as well as pre-judgment interest.

The District Court adopted the Special Master's findings and conclusions (except for the award of pre-judgment interest) and entered judgment for petitioners accordingly.

C. Appellate Proceedings.

The Studios appealed from the judgment arguing, *inter alia*, that there could be no liability under the Copyright Act for those acts of infringement which occurred overseas and that attorneys' fees should not have been awarded.

A three judge panel of the Ninth Circuit affirmed the judgment, basing its decision with respect to the foreign distribution on *Peter Starr*, *supra*.

The Studios then sought a rehearing *en banc* before the Ninth Circuit. An *en banc* rehearing was granted, and the *en banc* panel overruled *Peter Starr*. It held that authorization in the United States of copying abroad did not, in itself, violate the Copyright Act. Moreover, relying on this Court's decision in *E.E.O.C. v. Arabian American Oil Co.*, 499 U.S. 244, 113 L.Ed.2d 274, 111 S.Ct. 1227

(1991), the *en banc* panel held that the Copyright Act could not be applied extraterritorially, even though the defendants were U.S. citizens and even though there was no showing that imposing liability on those facts would conflict with the law of any other country. The opinion remanded the case to the three judge panel to determine whether there were alternative bases on which petitioners might recover for the Studios' foreign distribution of the Picture.

Although liability under the Copyright Act for MGM/UA's home video distribution of the Picture *in the United States* was unaffected by the *en banc* decision, the *en banc* panel vacated the entire award of attorneys' fees without explanation, presumably because of *Fogerty v. Fantasy, Inc.*, 510 U.S._____, 127 L.Ed.2d 455, 114 S.Ct. 1023 (1994).[1]

Petitioners sought a rehearing on the issue of the extraterritoriality of the Copyright Act and a rehearing and clarification of the decision vacating attorneys' fees. The application for rehearing was denied. The application for clarification was also denied, although four members of the *en banc* panel voted to remand the attorneys' fee issue to the District Court.

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[1] The issue of attorneys' fees was not before the *en banc* panel. Nevertheless, when the matter was under submission to the *en banc* panel, this Court rendered its decision in *Fogerty*, and the Studios' counsel wrote a letter to the Ninth Circuit asking that it consider the award of attorneys' fees below in light of that decision.

V.

REASONS THE WRIT SHOULD BE GRANTED.

A. THE COURT SHOULD DETERMINE WHETHER AND UNDER WHAT CIRCUMSTANCES THE COPYRIGHT ACT MAY BE APPLIED EXTRATERRITORIALLY AND SHOULD RESOLVE THE SEEMING CONFLICT BETWEEN ARAMCO AND HARTFORD FIRE INS. CONCERNING THE EXTRATERRITORIAL APPLICATION OF U.S. STATUTES.

The Court below, relying extensively on this Court's decision in *E.E.O.C. v. Arabian American Oil Co.*, 499 U.S. 244, 113 L.Ed.2d 274, 111 S.Ct. 1227 (1991) ("Aramco") ruled that the United States Copyright Act could not be applied to acts of infringement that took place solely outside of the United States. Thus, neither Warner's distribution of the Picture in foreign countries, nor MGM/UA's authorization in the United States of that foreign distribution, could be a violation of the Act.

Aramco, which did not involve the Copyright Act, indicated that United States statutes will not be applied extraterritorially unless there is an express Congressional direction to extend the statutes' protections to acts occurring in foreign countries. However, as discussed in greater detail below, the *Aramco* standard was not followed by this Court in *Hartford Fire Insurance Company v. California,* 509 U.S. ____, 125 L.Ed.2d 612, 113 S.Ct. 2891 (1993) ("Hartford"). *Hartford* applied the Sherman Antitrust Act to actions outside of the United States despite the fact that

there was no express Congressional direction of the kind seemingly required by *Aramco*.

Petitioners respectfully request that this Court review the issue of the extraterritorial application of the United States Copyright Act. The seeming conflict between *Aramco* and *Hartford* should be resolved in order to bring consistency and clarity to this Court's determinations on the issue of extraterritoriality in general, and to resolve that issue as it applies to the Copyright Act. In addition, the decision below is inconsistent with modern choice of law rules and with decisions of this Court concerning other statutes, and it appears to conflict with Article 1, Section 8, clause 8 of the U.S. Constitution. It will also have a seriously detrimental impact on American commerce.

The question of the extraterritorial application of American statutes is not a new one to this Court. It has been the subject of a number of decisions reflecting a changing and evolving approach to the issue. Compare *American Banana Co. v. United Fruit Co.*, 213 U.S. 347, 53 L.Ed. 826, 29 S.Ct. 511 (1909) with *Hartford Fire Insurance Company v. California, supra*, 509 U.S. _____ (1993).

The Constitution does not preclude the extraterritorial application of U. S. statutes. It is a choice of law issue. Until the 1940s, U.S. courts automatically denied extraterritorial application to American statutes based on the 19th century choice of law doctrine that cases should be governed by the law of the place where the acts occurred. L. Kramer, *Vestiges of Beale: Extraterritorial Application of American Law,* 6 Supreme Court Review 179, 202 (1991); G. Born, *A Reappraisal of the Extraterritorial Reach of U.S. Law*, 1992 Law and Policy in International Business, Vol. 24. For example, *American Banana Co. v.*

United Fruit Co., supra, denied extraterritorial application of the antitrust laws based on the rigid choice of law rules that then prevailed.

But that "territorial" approach was long ago repudiated by modern conflict of laws authorities and has been rejected and replaced by the courts with an approach that chooses the appropriate law by weighing a variety of relevant interests. Kramer, *supra*, at 202, 221, 223; Born, *supra*, at 1, 27, 72. *Restatement (Second) of Conflict of Laws*, Vol. 1, Chapter 7, pp. 412-413 (1971).

Based on this fundamental change in choice of law principles, American courts, led by this Court, began, in the 1950s, to reject mechanical rules in determining the extraterritorial application of American laws. See, e.g., *Romero v. International Terminal Op. Co.,* 358 U.S. 354, 380, 3 L.Ed.2d 368, 387, 79 S.Ct. 468 (1959), *reh'g denied,* 359 U.S. 962 (1959); *Lauritzen v. Larsen,* 345 U.S. 571, 583-584, 97 L.Ed. 1254, 1268, 73 S.Ct. 921 (1953); and *Steele v. Bulova Watch Co.,* 344 U.S. 280, 282 et seq., 97 L.Ed. 319, 323 et seq., 73 S.Ct. 252 (1952). Such cases recognized that Congress rarely gives any thought to whether it wishes a statute to have extraterritorial application, and that an attempt to apply an American statute overseas creates a choice of law issue, to be determined by weighing a number of relevant interests. See Kramer, *supra*, at 186, 196, 203-204, and *Lauritzen v. Larsen, supra,* 345 U.S. at 583-584. Among the principal factors considered are whether the foreign conduct to be regulated had an impact on American commerce, whether the person whose overseas conduct was to be regulated was a U.S. citizen and whether regulating that conduct created a conflict with the law of any foreign jurisdiction. See *Steele v. Bulova Watch Co., supra*, 344 U.S. at 282 et seq., 97 L.Ed. at 323 et seq.

Accordingly, numerous post-40s cases analyzed the extraterritorial application of U.S. statutes by using an interest-balancing approach. Examples are *Romero, supra*, and *Lauritzen, supra* (Jones Act); *Steele, supra* (Lanham Act); *Leasco Data Processing Equip. Corp. v. Maxwell,* 468 F.2d 1326, 1333 et seq. (2d Cir. 1972) (Securities & Exchange Act). "U.S. courts have for nearly 50 years applied federal laws extraterritorially in a wide range of cases -- all of which would represent violations of international law if territorial views like those in *American Banana* still prevailed." Born, *supra*, at 71.

This Court's opinion in *Aramco* appeared to reverse this trend by refusing to apply the Equal Employment Opportunities Act to conduct that took place in Saudi Arabia and by stating that American laws should be denied extraterritorial application, in the absence of an explicit congressional provision calling for such application.

Aramco has been the subject of considerable commentary and criticism. At least one Circuit Court of Appeals has avoided its thrust by stating that the presumption against extraterritoriality may be set aside under a variety of circumstances. See *Environmental Defense Fund, Inc. v. Massey,* 986 F.2d 528, 531 et seq. (D.C. Cir. 1993). *Aramco*'s territorial presumption has been described as an "unwise and illegitimate method of statutory construction," since Congress is presumed to have legislated against a background of choice of law principles, under which "the rationale for the territorial presumption has become obsolete," so that the presumption, itself, "should be abandoned." Born, *supra*, at 1, 44, 61. Another writer describes *Aramco* as "an anachronism" that "slipped back to the nineteenth Century" and that "[t]he Court made a

mistake -- one that it is in the best position to correct." Kramer, *supra*, at 182-184, 201-202, 224.

This Court seemed to have done just that in its 1993 decision in *Hartford*, *supra*. *Hartford* appears to hold, at least tacitly, that explicit congressional direction will *not* be required for extraterritorial application of American laws and that the Court will not follow *Aramco*'s approach to the issue. *Hartford* does not expressly overrule *Aramco*. But, as the dissent in *Hartford* appeared to recognize, the principle recited in *Aramco* cannot be reconciled with the *Hartford* decision. 125 L.Ed.2d at 650. There is no more explicit statement of extraterritorial application in the Sherman Act, which was before the Court in *Hartford*, than in the Equal Employment Opportunities Act, which was at issue in *Aramco*.

The presence of two recent and seemingly inconsistent decisions by this Court on the issue of extraterritoriality, would, without more, justify granting this Petition. But it is particularly appropriate that the Petition be granted and that the issue of extraterritoriality be examined because this case involves the Copyright Act. This is so for a number of independent reasons.

Congress' enactment of the Copyright Act flows from its grant of rights found in Article I, Section 8, clause 8 of the Constitution:

> "The Congress shall have Power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

Even if the Court were to resolve the conflict between *Aramco* and *Hartford* in favor of *Aramco*, and

even if, in the ordinary context, an act of Congress could not be applied extraterritorially in the absence of an express Congressional directive, the constitutional source of Congress' power compels a different result when dealing with copyright. The copyright laws were enacted by Congress, pursuant to the authority granted by Article I, Section 8, clause 8 of the Constitution to secure *exclusive* rights for copyright owners. Just as Congress would be violating the constitutional source of its power if it were to extend copyright protection in perpetuity (inasmuch as the Constitution provides that the protection may only be for limited times), if Congress were to enact legislation that provides something other than exclusive rights, where it could make those rights exclusive, it would not have followed its Constitutional mandate. While the Constitutional mandate might not require Congress and the courts to ignore international choice of law principles and apply U.S. law where those principles call for applying the law of another country, the Constitution at least calls for exclusivity where, as here, U.S. law *can* properly be applied in accordance with those principles.

Put another way, Article 1, Section 8, clause 8 of the Constitution expressly instructs Congress that if it is going to enact copyright laws, it is to secure for authors "exclusive rights" in their creative works, not just "exclusive rights *in the United States,*" whenever Congress can properly do so. If the Copyright Act were not applied extraterritorially in cases where that is possible, the exclusive nature of the copyright owner's rights would be illusory. Rather than having the exclusive right to exploit his copyrighted works, the copyright owner would have non-exclusive rights, since anyone could use or authorize others to use his copyrighted work outside of the United States.

This Court long ago recognized that our copyright laws are designed to encourage production of works to benefit not just the citizens of this country, but of all countries. See *Mazer v. Stein,* 347 U.S. 201, 219, 98 L.Ed. 630, 643, 74 S.Ct. 460 (1954), *reh'g denied*, 347 U.S. 949 (1954) (The copyright law "is 'intended definitely to grant valuable, enforceable rights to authors, publishers, etc., without burdensome requirements, to afford greater encouragement to the production of literary [or artistic] works of lasting benefit *to the world.*'") (emphasis added.) It would be anomalous indeed if our copyright laws -- which are intended to benefit "the world" -- could not be applied to actions occurring beyond the borders of this country.

The extraterritorial application of the Copyright Act in appropriate cases is highly significant to U.S. commerce. Virtually all American films, television, and other entertainment programming are now distributed throughout the world and are dependent upon that distribution for their financial success. In most cases, such works would be unable to attract financing and could never be created without the assurance of the revenue from international distribution. For this reason, any factor that jeopardizes the foreign revenue of such projects will necessarily have a substantial and adverse impact on American commerce. International copyright infringement has become such a factor. A typical copyright case today involves worldwide infringement, not just conduct in a single country. Foreign piracy of films, for example, creates a severe hazard to the American motion picture industry.

Under the decision below, American copyright holders whose works are pirated and sold throughout the world by other Americans cannot sue for violation of the U.S. Copyright Act with respect to piracy outside the

United States even if the pirate is a U.S. citizen and even if there is no conflict with foreign law. Instead, the copyright owner must either (a) bring separate lawsuits in each of the individual countries where the unauthorized work is being distributed, (b) induce a U.S. District Court to apply the copyright laws of each separate country where the pirated work is being distributed, or (c) forfeit a substantial part of his actual damages. Alternative (a) is wholly impractical. On the facts of our case, petitioners would be required to initiate more than twenty separate lawsuits around the world to obtain redress in each country where the Studios distributed the Picture, even if they could obtain jurisdiction in those countries. Alternative (b) is also unsatisfactory. District Courts are reluctant to apply the laws of foreign countries. See, e.g., *ITSI Television Productions, Inc. v. California Authority of Racing Fairs,* 785 F.Supp. 854 (E.D. Cal. 1992) (district court will not entertain claim under Mexican Copyright Law). Accordingly, alternative (c) -- forfeiture of actual damages -- will be the likely result if the decision below is allowed to stand.[2]

A refusal to apply American law to conduct occurring abroad may be justified where there is no impact on American commerce, where the defendant is a foreign citizen and where the American law conflicts with the law of the place where the disputed acts occurred. But it cannot be justified where, as in this case, there is American commercial impact, the defendants are American corpora-

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[2] The Berne Convention does not solve this problem created by the decision below. All the Berne Convention provides is that foreign countries must give U.S. copyright owners the same protection *in the foreign territory* as nationals in those territories would have under that country's copyright law.

tions and, most importantly, there is absolutely no conflict with foreign law.

The failure to apply the Copyright Act extraterritorially leads to brutally inequitable results, such as that created by the decision below, where the copyright owner may be left virtually powerless to obtain redress under the Act for a deliberate international infringement of his copyrighted work by an American citizen. On the facts of our case, two American companies, without permission from the copyright owner, agreed among themselves -- in the United States -- to take petitioners' copyrighted work and make copies for distribution in foreign territories around the world. Yet, there may be little if anything petitioners can do to obtain redress under the Act. Again, *this is not a situation involving foreign defendants or in which there is some conflict between foreign law and that of the United States.* Copying and distributing another's protected work is illegal in virtually every country (see M. Nimmer and D. Nimmer, *Nimmer on Copyright,* Vol. 3, §17.09 at 17-52 (1994)) and is certainly illegal in each of the foreign countries in which the Studios distributed the Picture. Moreover, it is presumed that foreign law is the same as United States law in the absence of proof to the contrary. *U.S. v. Westinghouse Electric Corp.,* 648 F.2d 642, 647, n.1 (9th Cir. 1981); *1700 Ocean Avenue Corp. v. GBR Associates,* 354 F.2d 993, 990 (9th Cir. 1955).

The failure to apply an interest-balancing approach to extraterritorial application of the Act, would not only leave the copyright owner without an effective remedy, but, in addition, would permit sophisticated American companies freely to copy and distribute the books, films and television programs of others with practical impunity so long as they arrange to have the copies made abroad. Ironically, even

American film workers would lose the copy-making jobs to foreign workers in order to shield the infringer from liability.

If the decision below is allowed to stand, there would also be an unjustified inconsistency between the rights of copyright owners and those of trademark owners in connection with their ability to stop overseas infringement. Both have been granted statutory monopolies in their creative works, but under *Steele, supra,* the trademark owner has a right of redress against Americans who infringe on his rights abroad. The copyright owner would have no corresponding right. Consistency calls for the overseas protections afforded U.S. trademark owners in *Steele* to be conferred on U.S. copyright owners as well. Both should depend upon a balancing of the relevant interests in each case.

There has been no recent consideration by this Court as to whether the Copyright Act should be applied extraterritorially and the issue of whether the "interest-balancing" approach to extraterritoriality should be applied to the Copyright Act has never been considered. A number of cases have simply accepted as a given that the Copyright Act has no extraterritorial application. These cases flow from three early decisions of this Court: *McLoughlin v. Raphael Tuck & Sons Co.,* 191 U.S. 267, 48 L.Ed. 178, 24 S.Ct. 105 (1903), *United Dictionary Co. v. G & C Merriam Co.,* 208 U.S. 260, 52 L.Ed. 478, 28 S.Ct. 290, (1908), and *Ferris v. Frohman,* 223 U.S. 424, 56 L.Ed. 492, 32 S.Ct. 263 (1912).

The "territorial" statements in these early cases are not surprising, since, at the time, the old "place of the tort" rule prevailed. Courts at the time followed the now outmoded concept that automatic territorial limits must be placed

on statutes, as in *American Banana.* Unfortunately, even after that choice of law rule was universally rejected, American courts continued to recite, as an unquestioned axiom, that the Copyright Act has no extraterritorial effect. They did so, without analysis, citing such cases as *McLoughlin* and *Ferris* and without ever directly addressing the constitutional basis from which Congress' power to enact copyright legislation flows and certainly without addressing the balancing test employed by this Court with respect to a number of other U.S. statutes.

For each of these reasons, petitioners respectfully urge that this Petition be granted to clarify the seeming conflict between *Aramco* and *Hartford,* to determine whether and when the Copyright Act may be applied extraterritorially and whether, at a minimum, an interest-balancing approach to extraterritoriality of the Copyright Act should be utilized or our courts are to apply the *lex loci delicti,* as they did at the time of *American Banana.* It makes no logical sense, and it is inconsistent with other rulings of this Court with respect to other statutes, to establish a blanket rule that, even though there is no conflict with foreign law, even though the defendant is a U.S. citizen and even though there is a substantial economic impact in the United States, the Copyright Act can never be applied to acts of infringement that occur outside of the United States.

B. THE COURT SHOULD REVIEW THE QUESTION OF WHETHER AUTHORIZATION TO USE A COPYRIGHTED WORK WITHOUT PERMISSION FROM THE COPYRIGHT OWNER IS A COPYRIGHT VIOLATION EVEN IF THE AUTHORIZED USE IS EXTRATERRITORIAL AND, FOR THIS REASON, NOT A VIOLATION OF THE ACT.

Separate and apart from the issue of extraterritoriality, there is a wholly independent question which should be reviewed by this Court. That issue is whether the Copyright Act of 1976 made it an infringement to "authorize" use of a copyrighted work without permission from the copyright owner, where the conduct authorized would violate the Act but for the fact that it occurs outside the United States. This is a significant question of statutory construction which has wide-ranging implications for the American entertainment industry.

In 1986, the Ninth Circuit ruled in *Peter Starr Production Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440, that authorizing another to use a copyrighted work, without the consent of the copyright owner was itself an act of copyright infringement, even if the use occurred outside the United States. The Court below, sitting *en banc*, overturned *Peter Starr*. Given that decision, a citizen of the United States can act in this country to license the foreign distribution of films without any right to do so, so long as the copies are made outside the United States. The owner of the copyright is left with no remedy under the U.S. Copyright Act.

That result is inconsistent with (i) the Copyright Act itself, (ii) the constitutional grant under which Congress is empowered to enact copyright laws, and (iii) other decisions of this Court. This is an issue of marked statutory and commercial significance which should be reviewed by this Court.

The existence of a valid copyright, of course, confers on the copyright owner the exclusive right to use his work in specifically enumerated ways. The 1976 Copyright Act made a significant change, however, in the nature of the exclusive rights enjoyed by the copyright owner. It gave the copyright owner not only the exclusive rights *to do* certain acts in connection with his copyrighted work, but, in addition, the exclusive right *to authorize* others to do those acts:

> "Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do *and to authorize* any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending;
>
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and

> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly." 17 U.S.C. §106 (emphasis added).

Consistent with this change, this Court has recognized that liability under the Act will be imposed not only upon those who, without permission, *do* any of the enumerated acts in Section 106, but also upon anyone who, without permission of the copyright owner, *authorizes* someone else to do those acts.

> "'Anyone who violates any of the exclusive rights of the copyright owner,' that is anyone who trespasses into his exclusive domain by using *or authorizing* the use of the copyrighted work in one of the five ways set forth in the statute [17 U.S.C. §106], 'is an infringer of the copyright.'" *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 433, 78 L.Ed.2d 574, 587, 104 S.Ct. 774 (1984), *reh'g denied*, 465 U.S. 1112 (1984) (emphasis added).

This Court made the point even more strongly in *Sony* at 464 U.S. 417, 435, n. 17:

> ". . . [A]n infringer is not merely one who uses a work without authorization by the copyright owner, but also one who authorizes the use of a copyrighted work without actual authority from the copyright owner."

In our case, MGM/UA did what is proscribed by the express language of 17 U.S.C. §106. Without petitioners' permission, MGM/UA *authorized* Warner to reproduce petitioners' copyrighted work so that Warner could distribute the Picture in foreign territories.

In overruling *Peter Starr*, the Court below reasoned that because the Copyright Act cannot be given extraterritorial effect, if the copying and distribution took place abroad, there is no U.S. copyright liability for authorizing it, even if the authorization occurred in the United States.

Even assuming arguendo that the United States Copyright Act does not have extraterritorial effect, that reasoning is incorrect. Since MGM/UA's authorization to Warner occurred solely in the United States, it was manifestly not "extraterritorial." Even if the authorized distribution were to be considered beyond the scope of the Copyright Act because it was extraterritorial, that should not insulate MGM/UA from liability for infringement of petitioners' exclusive right *to authorize* reproduction and distribution of their copyrighted work, where the authorization -- now a direct act of infringement -- occurred in this country.

The Act provides that authorizing any of the conduct listed in subparagraphs (1) through (5) of 17 U.S.C. §106 is itself a direct act of infringement. The Court below legislated a new requirement for copyright liability that cannot be found in the statutory language. It ruled that, even if the conduct authorized was within one of the five subparagraphs of 17 U.S.C. §106, if that conduct was extraterritorial, the act of authorizing it cannot be a violation of the Act. For at least three reasons, this conclusion is erroneous and should also be reviewed by the Court.

First, the Court below did not adhere to the "plain language" of the Copyright Act, which provides that a copyright owner has "the exclusive rights to do *and to authorize*" any of the acts listed in 17 U.S.C. §106 and that anyone who violates *any* of the exclusive rights enumerated in section 106 is an infringer. 17 U.S.C. §501(a). Under the plain language of the Act, "*authorization*" without the consent of the copyright owner constitutes an act of *infringement*. Indeed, the Court below recognized that "the authorization within the United States of entirely extraterritorial acts stated a cause of action under the 'plain language' of the Copyright Act." 24 F.3d at 1090, citing *Peter Starr*.

Having said this, however, the Court below disregarded that "plain language" and concluded that authorization does not constitute an act of infringement if the conduct authorized is extraterritorial. This conclusion was based on the legislative history of the Act, which provided, in pertinent part, as follows:

> "Use of the phrase 'to authorize' is intended to avoid any questions as to the liability of contributory infringers." H.R. Rep. No. 1476, 94th Cong., 2d Sess., 61, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5674.

Based on this statement, the Court below imposed an unstated condition upon the plain meaning of "to authorize". It departed from the long-standing rule that where a statute is clear and unambiguous, the statute should be given effect according to its plain meaning. *See Packard Motor Car Co. v. National Labor Relations Board,* 330 U.S. 485, 492-93, 91 L.Ed. 1040, 1050-51, 67 S.Ct. 789, (1947) ("[t]here is, however, no ambiguity in this Act to be clarified by resort to legislative history"); *Ex Parte Collett,* 337 U.S. 55, 61, 93 L.Ed 1207, 1211, 69 S.Ct. 944 (1949)

("there is no need to refer to the legislative history where the statutory language is clear"); and *Helvering v. City Bank Farmers Trust Co.*, 296 U.S. 85, 89, 80 L.Ed. 62, 66, 56 S.Ct. 70 (1935), *reh'g denied*, 296 U.S. 664 (1935) ("We are not at liberty to construe language so plain as to need no construction, or to refer to Committee reports where there can be no doubt of the meaning of the words used.").

Moreover, the legislative history here simply indicates the reason the amendment was enacted. It does not limit the application called for by the plain meaning of its terms. This is not a case in which applying the plain meaning of the legislation would *defeat or frustrate* its purpose. The legislative history does not require that the words "to authorize" can *only* apply to authorization by persons who are "contributory infringers." The Congressional purpose was not to *exclude* authorization by others as a ground for liability. Congress was simply *motivated* to act by a specific problem. Its solution, however, went beyond that problem's limited scope. If the reason Congress passes an immigration law excluding "convicted felons" is concern that Cuba will send us its criminals, "convicted felons" from England are nevertheless to be excluded.

Second, as indicated above, Article I, Section 8, clause 8, of the Constitution gives Congress the power to enact legislation giving authors "the exclusive right" to their works. If a citizen of the United States, having no right to do so, is allowed to authorize others to reproduce and distribute the copyrighted work in foreign countries, so long as they make the copies outside the United States, then the exclusive rights which were to be provided by Congress become anything but "exclusive." By overturning *Peter Starr*, the Court below has ruled that the copyright owner does not, in fact, enjoy the *exclusive* right to authorize

copying the work. Under this decision, the copyright owner has no more control over licenses to use the copyrighted work outside of the United States than would any third party with absolutely no right in or to that work.

Third, overturning *Peter Starr* is not sound policy. The American entertainment industry is an integral part of the global economy. Film is one of this country's major exports. American films and other entertainment products are and must be distributed on a worldwide basis. They are dependant for economic viability on worldwide exploitation. In our case, it was determined at trial (and not disturbed on appeal) that half the total revenue from video distribution of "Yellow Submarine" was estimated to have come from foreign sales. The anticipated revenue from foreign distribution permits and motivates domestic production, creating jobs in this country and bringing in needed foreign currency. Yet no U.S. producer could rely on such essential foreign revenue if the United States Copyright Act permits another American to authorize someone else to duplicate the producer's copyrighted film and to distribute it throughout the world, without paying royalties, simply because the physical copies are made across the border. If that were the law, the copyright owner would have no effective remedy to protect his right to the foreign revenue critical to the recoupment of his investment.[3]

For these reasons, this Court should consider whether authorization in the United States of an act specified in 17 U.S.C. §106 is an infringement even if the authorized act occurs abroad.

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[3] Again, the Berne Convention is of help in this situation. See Footnote 2, *supra*.

C. THE COURT SHOULD CLARIFY ITS OPINION IN *FOGERTY V. FANTASY, INC.* ON THE ISSUE OF ATTORNEYS' FEES IN COPYRIGHT LITIGATION.

The Copyright Act gives the trial court discretion to award attorneys' fees to the prevailing party in copyright actions. 17 U.S.C. §505. The District Court exercised that discretion here, and its decision was amply supported by the evidence. Although bad faith was not necessary to sustain an award of fees, there was substantial evidence that the defendants' conduct was not in good faith. For example, it was conceded that MGM/UA deliberately inserted ambiguity in the contract, intending to urge a construction it knew to be contrary to what the parties intended. Further, there was evidence that, when the Studios distributed videocassettes of the Picture throughout the world, they were on express notice of petitioners' claims and were well aware that they did not have the right to engage in such distribution.

The District Court's fee award was based on the Studios' acts of copyright infringement both in the United States and abroad. The finding of infringement as to MGM/UA's *domestic* distribution remains intact, despite the *en banc* ruling of the Ninth Circuit.

Nevertheless, the Ninth Circuit, sitting *en banc*, vacated the entire fee award without explanation. Presumably, the Ninth Circuit believed it was required by this Court's decision in *Fogerty v. Fantasy, Inc.*, 510 U.S. ___, 127 L.Ed.2d 455, 114 S.Ct. 1023 (1994), to vacate the district court's award of fees, even though petitioners prevailed in their copyright action, even though there was a finding of domestic infringement that remained intact on

appeal, and even though there was evidence of the Studios' bad faith in negotiating the agreements and distributing the copyrighted work.[4]

In *Fogerty*, this Court reversed the *denial* of fees to a prevailing copyright defendant, where the denial was based on the failure to prove the plaintiff's bad faith. A different standard had been utilized in the Ninth Circuit to determine whether a prevailing defendant, as opposed to a prevailing plaintiff, was entitled to fees. A prevailing defendant generally had to establish his adversary's bad faith in order to receive attorneys' fees. A prevailing plaintiff did not, and would ordinarily be awarded fees simply by virtue of having prevailed. In *Fogerty*, this Court held that prevailing copyright defendants must receive the same treatment as prevailing copyright plaintiffs in awarding attorneys' fees.

Petitioners have no quarrel with that ruling, but it should in no way affect petitioners' fee award below. *Fogerty* did not say that *both* plaintiffs and defendants had to prove bad faith in order to receive fees. The opinion is inconsistent with that conclusion. The defendants in *Fogerty* had been *denied* fees on the ground that the plaintiff's bad faith had not been established. This Court reversed that ruling. Logically, *Fogerty* can only mean that *neither* plaintiffs nor defendants are required to show bad faith in order to obtain fees. It cannot mean that *both* are required

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[4] Significantly, the attorneys' fee issue was not the subject of the Studios' request for *en banc* review and was not addressed in the hearing before the Ninth Circuit sitting *en banc*. However, while the matter was under submission, this Court issued its opinion in *Fogerty v. Fantasy, Inc.*. The Studios' counsel then wrote a letter to the Ninth Circuit requesting that it consider the attorneys' fees award in light of *Fogerty*. The court then vacated the entire award.

to make such a showing. If that had been the ruling, the lower court's order in *Fogerty* denying fees for a failure to show bad faith would have been affirmed, not reversed.

In our case, there is no conceivable basis for a ruling that the District Court abused its discretion in awarding fees, and the Ninth Circuit, sitting *en banc*, articulated no such basis. Nevertheless, apparently based on *Fogerty*, the majority of the *en banc* panel vacated the entire fee award.[5]

If allowed to stand, the Ninth Circuit's opinion here will leave the law on fee awards under the 1976 Copyright Act in hopeless confusion and will necessarily spawn extensive and unnecessary litigation over the meaning of this Court's decision in *Fogerty*. Accordingly, it is respectfully requested that the Court review the Ninth Circuit's decision on attorneys' fees under the Copyright Act, and that it either reinstate the fee award of the District Court or remand the case to the District Court to determine what portion, if any, of the fee award is allocable to any portion of the copyright infringement award not sustained on appeal.

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[5] Judges Poole, Beezer, Brunetti and Kozinski voted to remand the issue of fees to the District Court. See Document No. 7 to Appendix.

VI.

CONCLUSION.

For the reasons set forth above, it is respectfully requested that this Petition be granted and that the Court review the issues described herein.

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Respectfully submitted,

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